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FISCAL IMPACT STATEMENT

LS 6435
BILL NUMBER: HB 1720

NOTE PREPARED: Nov 25, 2002
BILL AMENDED:

SUBJECT: Retired Teachers' Reemployment Income.

FIRST AUTHOR: Rep. Klinker
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill increases from $25,000 to $45,000 the exempt amount that a Retired Teachers' Retirement Fund (TRF) member who is reemployed in a covered position may earn each year before the member's retirement benefits stop.

Effective Date: July 1, 2003.

Explanation of State Expenditures: The specific fiscal impact will depend upon the number of TRF members affected by the newly proposed exempt amount. Based on the assumptions below, the annual cost is estimated at $120,000 per year. The fund affected is the state General Fund.

Background Information: For FY 2002, 13 TRF members had their benefits suspended because of the exempt amount provision as it currently exists. In addition, the TRF reports that there are usually a few members who must pay back benefits when it is discovered after the fact that they have exceeded the exempt amount. The temporary suspension of benefits is dependent upon reporting by local boards of education. The member's benefits are suspended once the TRF receives notification that the member has reached the exempt amount. At the beginning of the next fiscal year, the benefits are reinstated until the member again reaches the exempt amount.

The proposal means that more benefits will be paid out each year than at the current level. Specific data are not available on which to base an estimate. The following assumptions are used for illustrative purposes.

> An average salary of $55,000 (the approximate average salary for active members in the 50- to 65-year age range).

An average annual pension of $18,000 (the approximate average for retirements from 1999 to 2001). This would be paid in monthly installments of $1,500 beginning July 1.

The school year (and thus the payroll period) begins September 1, two months into the fiscal year.

Based on the above, the pay for such a member would reach the current law's "exempt amount" of $25,000 toward the end of January. At that point, the member would have received seven months of benefit payments; and (assuming the member continues to teach) the remaining five months of payments would be suspended. At $18,000 per year, this would mean $7,500 of forgone benefit payments to the member.

Under the proposed change, the member's pay would reach the new "exempt amount" of $45,000 in early May, possibly after the member had received the 11th monthly benefit payment. The member would be ineligible for the final month's payment for that fiscal year. At $18,000 per year, this would mean $1,500 of forgone benefit payments to the member.

The difference of $6,000 of additional benefit payments is the increase in cost to the TRF, based on this example. If it is assumed that 20 members per year would be affected by this proposal, the fiscal impact would be $120,000 per year. This represents less than 0.01% of the TRF active payroll. The 20 member per year assumption is consistent with the level of utilization at the $25,000 level.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected:

Information Sources: Brian Dunn of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498; William Christopher, Director of TRF, 232-3869.

Fiscal Analyst: James Sperlik, 232-9866.